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THE COMMONWEALTH OF MASSACHUSETTS

OFFICE OF THE INSPECTOR GENERAL

INSPECTOR GENERAL'S COMMENTS ON THE REPORT OF THE GOVERNOR RELATIVE TO IMPROVEMENTS AT THE METROPOLITAN DISTRICT COMMISSION

Submitted Pursuant to
Chapter 723, Section 18 of the Acts of 1983
and
Chapter 637, Section 18 of the Acts of 1983

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May 14, 1984

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History

The McKinsey Report

In 1980, the Metropolitan District Commission ("MDC") hired a nationally-known consulting firm, McKinsey & Company, to analyze the MDC's organization and operations and to recommend needed improvements. The consultant's recommendations --which advised comprehensive changes in the MDC's organizational structure and systems for personnel administration, planning, project management, and maintenance --were formally adopted by the MDC in July 1981.

In the fall of 1981, MDC Commissioner Geoghegan, appearing before the Governor's Council, used the McKinsey management consulting contract to counter criticisms of the MDC made in a report by the State Auditor. The Commissioner testified that upon his appointment in May 1980, he had "brought in a major management consultant team [McKinsey & Company, Inc.] to do a reorganization of the MDC in order to correct the long-standing problems."

The Commissioner assured the Governor's Council that "[t]he management team made its recommendations and these have been implemented."

The Inspector General reviews MDC projects and management systems

Despite the MDC's claims that it had corrected its past management problems by implementing the McKinsey report's recommendations, the Office of the Inspector General, which was established in July 1981, soon thereafter began receiving numerous complaints from citizens and public officials alleging wasteful mismanagement of the MDC's Parks Division projects. In investigating several cases of apparent waste and mismanagement, it became clear that, although the cases differed from one another in many respects, they exhibited common underlying problems. The Inspector General prepared an in-depth report[1]

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[1] Report on the Metropolitan District Commission: The Parks Division and Central Management Systems, report of the Inspector General, Boston, September 12, 1983 (191 pages). The Inspector General issued a separate report on a zoo case study in order to provide legislators with timely recommendations

on the MDC which:

1. told the story, in several case studies of MDC projects, of what went wrong and why;

2. analyzed the underlying causes of the problems evident in each case;

3. evaluated the extent to which these problems were systemic; and

4. recommended ways to overcome these underlying causes of waste and mismanagement by making needed improvements in the agency's basic management systems.

The report reviewed four MDC projects which had experienced cost overruns. When these cases were selected for review, it was not known that the case studies would also reveal serious engineering defects, lack of management controls, and billing irregularities. Yet the studies uncovered one instance in which MDC approved the design of a bridge which would have collapsed if built, and another in which MDC built a $100,000 wall which the project engineer incorrectly believed would serve as a breakwater but which in fact serves only as a bench. The studies further revealed incidents of unjustified billings and payment of invoices for work which MDC did not even know was being done.

The MDC management systems reviewed by the Inspector General included project planning, consultant screening and selection, contractor prequalification and selection, project management, maintenance and personnel management. Five of these six management systems, all but contractor prequalification and selection, had been analyzed and presumably upgraded as a result of the McKinsey & Company consultant contract. Nevertheless, our review of these basic management systems showed that extensive deficiencies persisted. For example, the review found that:

1. The MDC lacks effective short and long range planning both at the agency level and at the Parks Division level;

2. The Parks Division's project management procedures entrust to the consultants who contract with MDC virtually all responsibility for overseeing and controlling their own work;

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concerning a pending capital outlay request. See Report on the Franklin Park Zoo Tropical Forest Pavilion, report of the Inspector General, May 2, 1983 (125 pages).

3. MDC Parks Division engineers lack the capacity to plan and manage the agency's design and construction projects;

4. The MDC prequalifies and accepts bids from contractors who have performed unsatisfactorily in the past;

5. The MDC lacks the capacity to make reliable project cost estimates;

6. The MDC commissioners lack a reliable mechanism for identifying major technical and administrative problems in agency projects and organizational sub-units;

7. The MDC lacks a coherent, comprehensive maintenance program to protect and preserve the MDC parks and recreation system;

8. The Parks Division's failure to systematically identify and plan for maintenance invites wastefully high repair costs and public safety hazards;

9. The Parks Division's maintenance forces are, according to several district superintendents, too few in number and lack the necessary training and experience to carry out their duties;

10. The MDC lacks systems for evaluating employee performance, for identifying staffing deficiencies, and for designing strategies to upgrade performance;

11. The MDC has failed during the past four years to implement comprehensive improvements in agency management systems that were recommended on two occasions by the MDC's own consultants;

12. Management controls capable of preventing construction cost overruns, wasteful construction delays, and premature deterioration of completed projects are not in place in the Parks Division or at the MDC's central management level.

These and the many other shortcomings observed in reviewing MDC projects and management systems led the Inspector General to three disturbing conclusions about the MDC generally and the Parks Division specifically:

1. <u>MDC's Parks Division is incapable of maintaining its past capital investments.</u> Maintenance needs are not identified. Preventive maintenance is not done. Maintenance budgets are not requested. Maintenance priorities are low. MDC's maintenance funds and staffing have been reduced even as facilities have expanded. All of these facts strongly suggest that MDC is incapable of maintaining its past capital investments.

2. MDC is incapable of managing its present design and construction work. MDC's central consultant selection procedures are unreliable, arbitrary, idiosyncratic, and lacking in public accountability. MDC's central contract controls are weak or entirely absent. Cost overruns, missed schedules, and design and construction defects, which recur in Parks Division projects, reflect underlying inadequacies in MDC's project management systems and serious deficiencies in the qualifications of the Parks Division's managers and engineering staff. The MDC Commission does not effectively oversee its managers; Parks Division managers violate the Commission's approved policies and procedures, substituting their own policies and procedures.

3. MDC is incapable of controlling its future direction. The agency, which spends over $70 million annually in operating funds and millions more in capital outlay funds, has no systematic mechanisms for anticipating and responding to problems and opportunities. MDC's central personnel function is entirely inadequate to the task of ensuring that the agency will have the staff it needs to carry out its future work. Planning is accorded a low priority at all levels of the agency. MDC's Planning Office has not updated long-range plans for the Parks Division. The Parks Division selects projects without weighting program priorities, without establishing project selection criteria, and without evaluating the costs and benefits of alternatives. Because MDC is thus unable to anticipate problems and develop orderly plans for meeting them, the agency repeatedly faces crises that consume the energies of its managers, diverting their attention from the crucial management function of preparing for the future.

Chapters 637 And 723 Of The Acts Of 1983

Shortly after the Inspector General's report on the MDC was issued, the above conclusions were reflected in two statutes enacted by the General Court: Chapter 637 of the Acts of 1983 (the Transportation Bond Issue Act), and Chapter 723 of the Acts of 1983 (The Capital Outlay Appropriations Act).

Both acts stated that the MDC shall not expend funds for Parks Division capital projects authorized therein until 60 days after the Governor submits a report which "describes the improvements made in the [MDC's] management capabilities, in accordance with a comprehensive plan" and which "demonstrates" that the MDC "has the necessary technical, managerial and financial capability" to both execute such projects and maintain them in good repair. Both Acts also require the Inspector General to provide written comments on the Governor's report to the clerk of the senate, to the clerk of the house of representatives, and to several specified legislative committees within 30 days of receiving the Governor's report. The Governor submitted a report purporting to meet the statutory requirements on or about April 12, 1984; this report was received by the Inspector General on April 13, 1984.

The Governor's Report On Improvements At The Metropolitan District Commission

Overview

The Governor's report claims that several needed improvements have already been achieved and states that numerous other improvements will be achieved in the future. Although these claimed achievements would suggest encouraging movement towards most needed improvements, the Governor's report also acknowledges that many of the most needed changes in the MDC will take additional time and money to implement. In preparing our comments on the Governor's report we have not attempted to verify claimed accomplishments through field reviews. Neither have we attempted to evaluate whether the amount of progress that has been made by the MDC to date has been all that it should have been under the circumstances. More immediately relevant to the mandates of

Chapter 637 and 723 than either of these two questions is the fact that the Governor's report acknowledges that the most needed changes identified in our reports on the MDC are still being discussed and planned rather than being implemented. In short, even assuming that all accomplishments claimed are actually in place, the Governor's report clearly documents that the legislative mandates of the Capital Outlay Act and Transportation Bond Issue Act have not yet been met.

Background

Shortly after the Inspector General's September, 1983, report on the MDC, the Governor, following one of the report's recommendations, appointed a task force consisting of the Secretary of Environmental Affairs, the Secretary of Administration and Finance, the Assistant Secretary of Administration and Finance for management, and the MDC Commissioner, to develop a comprehensive plan for revitalizing the agency. Thirty-nine days later, the task force issued a document entitled "Metropolitan District Commission Management Action Plan" which acknowledged the need to achieve almost all of the important changes in the MDC's operations and capacities recommended by our September 12 report. The task force document established an appropriate tone and stated an encouraging commitment to the task of revitalizing the agency. Two months later, the task force submitted to the Inspector General a six-page draft document entitled "Response to the Inspector General's Report[:] Implementation Phase --Timetables and Actions". This document announced that a new organizational structure for the Parks Division was being reviewed by community groups, unions, and municipal officials. The document also reported that a number of specific steps had already been taken to improve project management and fully implement the McKinsey study, and the document reiterated the action plan's recognition of the need for an effective personnel operation and the hiring and training of Parks Division staff. The document also pledged that the Administration would seek a supplemental budget appropriation to hire qualified staff and create new organizational units. The document listed a number of specific actions to be taken and deadlines for taking them.

In discussing this draft document with the Inspector General's staff, the

task force emphasized the preliminary and fluid nature of the document and stressed the need to refine it as supplemental budget funds were received and the hiring of key new personnel made important changes possible.

The comprehensive plan

While the draft action plan and implementation documents constituted promising initial steps, they did not establish a coherent, persuasive, controllable plan for obtaining and sustaining reasonable progress towards revitalizing the MDC. The documents do not explain how important tasks will be carried out, do not outline the principal purposes or concerns that taking those actions should serve, do not reveal what agency and Administration resources will be committed to those actions under alternate assumptions about resource availability, do not assign individual responsibility and accountability for accomplishing key tasks, do not describe mechanisms or individual responsiblity for coordinating key tasks, do not specify measurable criteria for confirming whether key tasks have been accomplished, and do not describe or provide mechanisms for measuring and reporting on implementation progress.

In short, the MDC documents, which underly the Governor's Report, do not constitute a "comprehensive plan" as called for by law. They constitute a draft of an outline of a plan.

The Governor's April 12 report does not indicate progress in developing essential elements of a plan which are missing from the Task Force's draft action plan and implementation phase documents. Accordingly, the Governor's report fails to demonstrate, as Chapters 637 and 723 require, that the MDC's efforts to make management improvements are being made in accordance with an adequate comprehensive plan.

Analysis of the Governor's April 12 report shows that deadlines announced in the implementation phase document for achieving important preliminary improvements were not met. For example, the Governor's report reveals that the following tasks set forth in the December 22 draft implementation phase document had not been accomplished as of April 12:

-- issue a plan to upgrade the MDC's cost-estimating skills by February 15, 1984;

-- hire a consultant to analyze the agency's maintenance needs and develop maintenance standards by January 15, 1984;

-- institute a performance appraisal system by the first quarter of 1984; and

-- adopt a comprehensive training plan by March 1, 1984.

We have not reviewed these failures to determine all their causes, but it is evident that one contributing cause has been the MDC's failure to develop a sufficiently detailed comprehensive improvement plan to enable the agency to oversee the implementation process and control its results.

Long range intentions

In addition to identifying opportunities for improving the planning of MDC's improvement efforts, the Governor's April 12 report makes it clear the fundamental deficiencies identified in our reports on the MDC continue to exist. Specifically, the Governor's report cites at least eight key areas in which the MDC intends to make major improvements, but has not yet made tangible progress:

1. The MDC lacks qualified staff in key management positions. The Governor's report states that the positions of Chief Engineer, Director of Parks Engineering and Construction, and Chief Prequalification Officer have not yet been filled. Strong managers for these positions are critical to the ultimate success of the MDC's efforts to institute changes in project reporting and prequalification procedures, as our public reports on the MDC have demonstrated. Until the MDC has filled these key positions with qualified candidates, and until these managers have demonstrated that they are in control of the MDC's improvement efforts in their respective areas, it cannot persuasively be asserted that the far-reaching changes needed in the MDC's engineering and management procedures will actually be achieved.

2. The MDC lacks qualified staff in key technical positions. The Inspector General's case studies of MDC projects showed many instances of gross, and in at least one case, potentially life-threatening errors of omission or

commission, by MDC employees responsible for technical oversight of design or construction activities. The Governor's April 12 report provides no reason to conclude that the problem of insufficiently qualified technical personnel at the MDC has been corrected.

3. The MDC lacks reliable methods of estimating the costs of its design and construction projects. Our public reports on the MDC found that Parks Division engineers were not expected to prepare accurate project cost estimates, nor to evaluate the reliability of project cost estimates prepared by consultants and contractors. As a result, the MDC increased the risk of cost overruns and waste in executing its projects. The Governor's report acknowledges that the MDC has not yet upgraded its project cost estimating abilities.

4. The MDC lacks a functioning central planning unit. The Governor's report acknowledges that currently "[t]here is no agency-level planning and no integration of Divisional and project plans" within the MDC. The five case studies presented in our public reports on the MDC documented serious design and engineering problems resulting from this absence of an agency planning process. Until the MDC establishes a central planning process to guide the allocation of its resources, the agency's project selection and design decisions will continue to invite waste and abuse.

5. The MDC lacks a maintenance plan and program. Our September report found that the Parks Division failure to identify and plan for the maintenance needs of the MDC's parks and recreation system invited wastefully high repair costs and public safety hazards. Until the agency has completed a thorough evaluation of its maintenance requirements, has established maintenance standards for monitoring the condition of its facilities, and has instituted procedures for measuring and reporting on progress in upgrading its maintenance function, the MDC cannot demonstrate the ability to maintain existing or new facilities in good repair.

6. The MDC lacks definite plans for position analysis, performance appraisal, and staff training. Our public reports on the MDC demonstrate that

problems associated with the Parks Division engineering personnel contribute significantly to the MDC's project delays, cost overruns, and design and construction deficiencies. Because the MDC lacks systems for evaluating employee performance, identifying staffing deficiencies, and designing training programs and other strategies to upgrade employee performance, MDC management has not been able to improve the productivity and effectiveness of existing employees or to determine current and future staffing needs. Until such control is achieved, the MDC cannot demonstrate that it has the managerial capacity needed to execute capital outlay projects without waste.

7. The MDC has not obtained intensive outside assistance to help implement needed improvements. Our public reports on the MDC showed that previous reports on the agency's deficiencies have brought about little management change. Accordingly, the Inspector General recommended that the MDC ask private sector engineers, managers, personnel specialists and other knowledgeable citizens to help the agency sustain efforts to implement needed improvements. The MDC has not done so.

8. The MDC lacks a functioning internal audit unit. Our public reports documented the inadequacy of the MDC's management controls over project costs, schedules and quality. Project management controls were found to be uniformly weak or virtually absent in all the MDC projects described in the case studies. Moreover, because no systematic and independent internal review of projects took place, the Commission frequently lacked complete and accurate information regarding agency operations. Our reports concluded that an independent audit group responsible for selectively monitoring, evaluating and reporting on agency operations was essential to prevent recurrence of the cost overruns, delays, and quality problems plaguing the agency. Our report also noted the need to have the internal audit unit monitor and assist in the MDC's efforts to revitalize its management and engineering systems. An internal audit unit has yet to be established.

Claimed accomplishments

The Governor's April 12 report asserts a number of MDC accomplishments as evidence that the agency can now manage new construction projects.

1. Cost overrun performance. As evidence of the MDC's current capabilities, the Governor's report cites statistics on 101 projects undertaken by the MDC in 1982-1983 and argues that these figures show MDC's cost overrun rate to fall within acceptable limits. In another section, however, the Governor's report acknowledges directly that "cost estimating skills must be improved."

   Our report on the MDC's Tropical Forest Pavilion project at Franklin Park Zoo documented that the $3 million budget for the final phase of the project's construction was a loose, largely unsubstantiated budget whose framers admitted that the budget had been made ample to ensure that sufficient funds would be appropriated. This type of inflated cost estimating makes it difficult to credit low cost overrun statistics as an accomplishment.

2. Parks Division reorganization. The Governor's report asserts that a reorganization of the Parks Division is under way and predicts that this restructuring of organizational units and responsibilities will have many significant benefits. In fact, however, the organizational changes reported in the Parks Division may or may not have positive effects. The effects of organizational changes depend largely on key managers and basic management systems, which the Governor's report admits are not yet in place. As the Governor's report notes, after describing a claimed reorganization of responsibility for construction, maintenance, and operations,

   "However, no system or structure can be truly accountable without first having a logical, comprehensive planned maintenance schedule and a system to monitor adherence to that schedule."

   The Governor's report clearly indicates that the required maintenance

schedule and monitoring system are not in place.

3. Personnel Administration. On page 16, the Governor's report states that "The personnel operation has been centralized to ensure a coordinated approach to human service management". However, on page 7, the same report states, "Presently, the personnel function is fragmented among the various operating divisions with a minimal program of human resource management."

4. Project design. On page 15, the Governor's report states, "In order to ensure a more objective and cost effective project design, the Parks Engineering and Construction Division now requires separate study and design contracts." However, in monitoring a recently initiated MDC project involving the design and construction of a John Fitzgerald Kennedy Memorial Park in Cambridge, we have discovered that the MDC is not observing the policy of separating study and design contracts as announced in the Governor's report. Design work of this type involves two stages: a study of the scope of the project and design of the final plans. The issue is whether to have one consultant do both, or whether each phase should be handled by a different consultant. The Ward Commission placed considerable emphasis on separation of study and design contracts as a means of preventing waste and abuse. A single designer has an incentive to promote the most elaborate and expensive approach to any work.

5. Other claimed accomplishments. The Governor's report lists a number of other claimed improvements pertaining to contractors prequalification, consultant selection, project management, and personnel administration. Such changes move in the right direction. However, in the face of the many critical deficiencies which have not yet been remedied, these changes do not demonstrate that the MDC has the ability to execute and maintain its projects.

Conclusion

The Governor's report does not demonstrate that the MDC has "a

comprehensive improvement plan," and the Inspector General has seen no independent indication that such a plan presently exists. The Governor's report does not demonstrate that the MDC has the necessary technical, managerial and financial capability to execute and maintain the projects for which the General Court provided funds in chapters 637 and 723. Under section 18 of these Acts, the MDC is prohibited from spending the funds authorized in either Act until sixty days after the Governor has submitted a report which fulfills the terms of these laws.

I must respectfully advise the General Court that, in my opinion, the requirements you enacted into law for the expenditure of funds by the MDC have not been met by the Governor's report.

There may be certain projects which the legislature determines should be undertaken immediately notwithstanding the risk of waste or abuse; that determination is for the legislature to make.